

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 DRC-01 /149 W

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R 160052Z APR 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1275

UNCLAS TOKYO 4932

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: GOJ IMPOSES 10 PERCENT SURTAX ON CORPORATE PROFITS

1. ON MARCH 30, 1974, THE DIET PASSED A MEASURE WHICH WILL IMPOSE A 10 PERCENT SURTAX ON CORPORATE PROFITS EXCEEDING YEN500 MILLION (APPROXIMATELY \$1.8 MILLION), OR ON INCOME EXCEEDING 20 PERCENT OF A CORPORATION'S PAID-UP CAPITAL, WHICHEVER IS LARGER. THE BILL TAKES EFFECT FOR A TWO-YEAR PERIOD AND THE NEW TAX WILL BE APPLIED TO INCOME REPORTED AT THE END OF THE SEMIANNUAL ACCOUNTING TERM CLOSING MARCH 31, 1974. THIS NEW MEASURE IS PRIMARILY THE RESULT OF RECENT DEBATE WHICH HAS DEVELOPED FOLLOWING CHARGES OF "PROFITEERING" BY MAJOR CORPORATIONS DURING THE CRISIS PERIOD OF RECENT MONTHS.

2. ALTHOUGH THE NEW LEGISLATION HAS BEEN ENACTED FOR A TWO-YEAR PERIOD, THIS TERM MAY BE SHORTENED BY A SUBSEQUENT VOTE OF THE DIET. PAYMENT OF THE EXCESS PROFITS TAX WILL BE DUE ALONG WITH NORMAL TERM-END PAYMENTS OF REGULAR CORPORATE INCOME TAXES. IT IS ESTIMATED THAT AN ADDITIONAL YEN170-175 BILLION (\$625 MILLION AT YEN 280 PER DOLLAR) WILL BE COLLECTED DURING JFY 1974 AS A RESULT OF

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THE NEW TAX. THIS WOULD REPRESENT AN INCREASE OF APPROX-

IMATELU 3.5 PERCENT OVER OTHERWISE EXPECTED CORPORATE INCOME TAX REVENUES OF YEN4,928 BILLION. THE NEW EXCESS PROFITS TAX WILL AFFECT APPROXIMATELY 1,600 JAPANESE CORPORATIONS.

3. FOLLOWING PASSAGE IN THE DIET, SEVERAL BUSINESS LEADERS EXPRESSED SEVERE CRITICISM OF THE NEW TAX LEGISLATION. THE VICE PRESIDENT OF THE KEIDANREN (FEDERATION OF BUSINESS ORGANIZATIONS) TOOK ISSUE WITH THE NEW TAX LAW WHICH HE STATED IS DESIGNED TO TAX CORPORATIONS FROM A "PUNITIVE" POINT OF VIEW. THE CHAIRMAN OF NISSAN MOTOR COMPANY, K. KAWAMATA, SAID THE SURTAX LAW REPRESENTS "A POLITICAL DECISION." OTHER BUSINESS LEADERS STATED THAT RECENT PRICE INFLATION HAS BEEN THE RESULT OF GOVERNMENT MISMANAGEMENT OF THE ECONOMY AND THAT CORPORATIONS ARE NOW BEING PENALIZED FOR UNFORTUNATE ECONOMIC DEVELOPMENTS WHICH ARE THE RESPONSIBILITY OF THE GOVERNMENT. SEVERAL EXPRESSED SUPRISE THAT THE LDP PARTY HAD ACTUALLY PASSED SUCH LEGISLATION.

4. KNOWLEDGEABLE AMERICAN CPA HERE CORROBORATES STRINGENCY OF NEW TEMPORARY SURTAX, STATING THAT POSSIBLE LOOPHOLES FOR AVOIDANCE OR DELAY OF TAX HAVE BEEN CLOSED BY MOF. FOR EXAMPLE, COMPARED TO PAST IT IS NOW VERY DIFFICULT TO CHANGE ACCOUNTING PERIODS AND NO CHANGES BEING ALLOWED IN ACCOUNTING METHODS. HE ALSO REITERATED THAT, AS LAW PRESENTLY READS, SURTAX PERIOD WILL EXTEND FOR 24 MONTHS BEGINNING WITH FIRST SETTLEMENT TERM TO WHICH TAX APPLIED. EDMOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, PROFITS, CENTRAL LEGISLATURE, TAXES, EARNINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 APR 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO04932
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740087-0159
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740438/aaaabiff.tel
Line Count: 90
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by BryanSD>; APPROVED <20 DEC 2002 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOJ IMPOSES 10 PERCENT SURTAX ON CORPORATE PROFIOS
TAGS: EFIN, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005